RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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June 22, 1994 **LETTER 1150**

June 10 DJIA 3773.45; PTI 4010; A-D Ratio -5.26
June 17 DJIA 3776.78; PTI 4012; A-D Ratio -5.32
Dow Yield: 2.65%; Dow Price/Earnings: 25.7
Dow 200-day MA: 3740; Dow 30-day MA: 3736
Dow Times Book Value: 3.29; PTI 89-day MA: 4028
Percentage of Undervalued Blue-chips: 12%
Dow Low Risk Buy Index: -28; Gold-PTI: 970
Gold 40-week MA: 379

THE MARKET: The striking thing about this market recovery so far is how flagrantly the Transportation and Utility Averages and the Advance-Decline ratio have lagged behind the Dow.

Since its low of 3593.35 of April 4, the Dow has recouped better than half its January to June bear market losses (the halfway level was 3786).

The Transports, however, have not fared nearly as well. From their 1546.02 low of April 4, the Transports have retraced around 22% of their February to April bear market losses.

The Utilities have recovered even less in percentages than the Transports. So up to now it's been mainly a Dow show with lagging performances on the part of the Transports, the Utilities, the Advance-Decline ratio and a great many stocks.

Nevertheless, the Dow keeps pushing. Ironically, at this point the worst kind of technical action would be a new high by the Dow (above 3978.36) with the Transports failing by a wide margin to confirm.

Whether the Dow is fated to "try for the high" is open to question. From the standpoint of Dow Theory, it really doesn't matter -- unless, of course, we get a new Dow high confirmed by a new high in the Transports above 1862.29. Let me put it this way -- I'd be surprised if the Dow rallied to a new high. I'd be amazed if the Dow made a new high and the Transports confirmed.

One characteristic of a primary bear market is that financial transactions (volume) slow down. I believe that's what we're seeing. The first ones to suffer from declining volume (in stocks, bonds, derivatives) are always the brokerage houses. Keep your eye on Merrill Lynch -- that stock is a good proxy for the entire brokerage group.

INFLATION? Are the nation's economists in denial? Almost to a man (oops, and woman), they are claiming that there is no inflation and none in sight. Yet Columbia University's CIBCR's leading indicator of inflation continues to probe new high ground. And last week the CRB Raw Materials Index recorded a high for the year, up 11.7% from its level of 12 months ago.

And check these statistics (all since Sept. 30, 1993): cotton up 46%; copper up 38%; lumber up 26%; soybean oil up 18%; corn up 9%; soybeans up 7%; silver up 34%; platinum up 11%; gold up 8%; coffee up 63%; sugar up 24%; cocoa up 16%, crude oil up 40%. All raw materials or commodities, true, but they tend to lead the finished products.

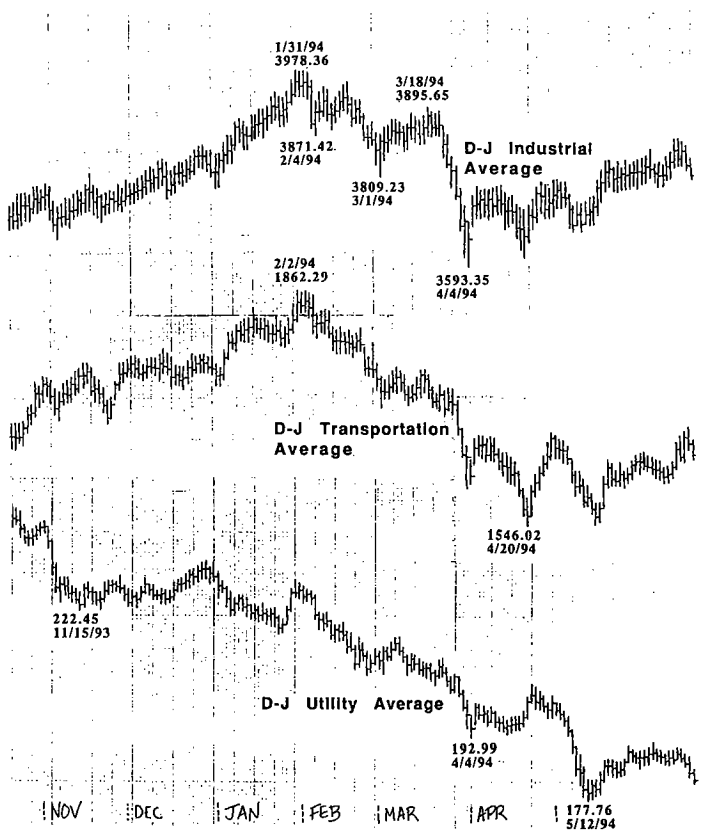
In his latest report James Grant of *Grant's Interest Rate Observer* fame presents a study which shows that world liquidity is growing at an annual rate of over 14%. Every nation, it appears, is generating (manufacturing) more money. Ordinarily, I would expect this blizzard of central bank paper to translate itself into inflation.

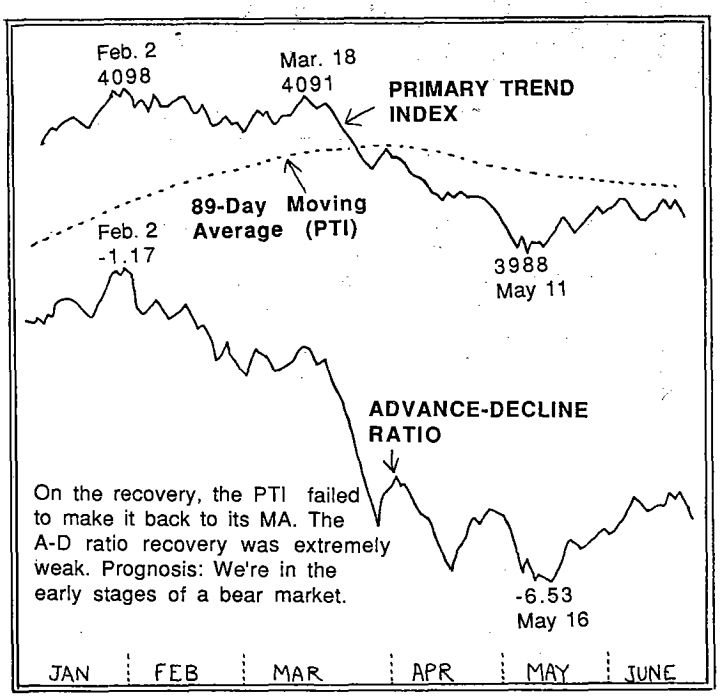
Russell's Question: Are we dealing with *cyclical deflationary forces* that are so powerful that despite three years of furious pumping by the Fed and despite expansionary monetary policies by the rest of the world, inflation is still not catching fire? Are *cyclical deflationary forces* holding gold back? Is this the reason retail prices have not heated up -- yet? **OR** -- is this simply the pause before inflation kicks in? We should know by year's end (note: the implications of rising inflation are discussed in this Letter in the "Debt King" piece).

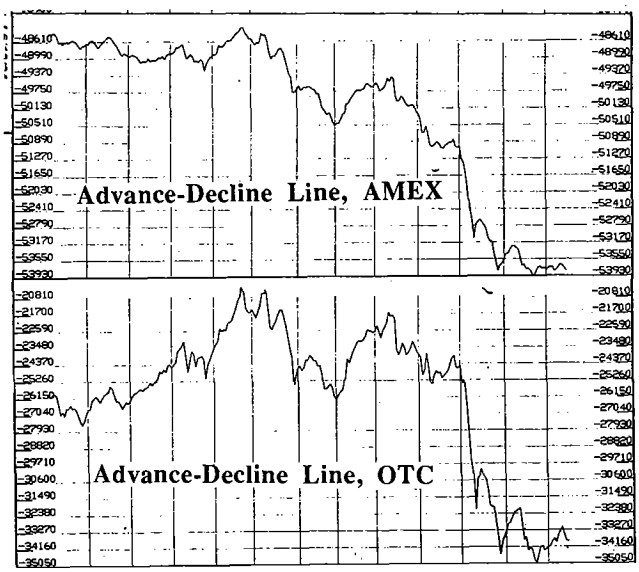
THE BROAD PICTURE: The sales of bonds have slowed dramatically. The *New York Times* (June 5) opines that bond sales have fallen off because refinancing of high coupon bonds has largely been completed. "But," adds the *Times*, "it is not as obvious why stock sales have fallen off a cliff." Figures from the *Securities Data Company* show that last month underwriters managed to sell only $4.6 billion in (new) stocks, down from a peak of $13.8 billion in November.

The mystery of the slowing stock sales is clarified to some extent when you look at the advance-decline lines on both the AMEX and the OTC markets (see charts on page 2, courtesy *Mansfield*). It's obvious that a slew of the less-than-blue-chip stocks have collapsed (early signs of the bear). Forgetting the Dow, it's been a tough market for most stocks, and the nation's underwriters are well aware of it.

My old friend, Bob Prechter of Elliott Wave fame, is not mincing words about the current situation. In his May 27 report, Prechter







states "that the stock market is topping in the greatest degree trend change in 274 years is *indisputable* given the overwhelming evidence and pristine patterns that lead up to today's stock market levels . . . A Dow peak in the 3980-4080 range (already met on Jan. 31) is *virtually certain,* since a peak in that zone completes a perfect Fibonacci price picture over 60+ years . . . Finally, a market peak **in or before 1995,** the year that marks the most Fibonacci times relationships since 1987, is also *virtually certain."* (*Elliott Wave Theorist,* PO Box 1618, Gainesville, GA 30503)

Many, many years ago I wrote extensively about Elliott, but I was happy to turn the Elliott studies over to Bob Prechter, a brilliant market student who has put a tremendous amount of time and effort into this area. The present is a critically important period for Bob Prechter and his Elliott studies, since he is unequivocally calling for a top of monumental and historic proportions. Prechter's studies forecast a coming giant bear market, one which, at best, will take the Dow down to the 1929 high of 381 (no, that's not a misprint).

My comment: I've followed Prechter's studies ever since he started his service (I think it was in the 1970s). There's no question about it --the test of the validity of the Elliott Wave theory is upon us. And when it comes to the interpretation of Elliott, there's no one better than Bob Prechter.

Question: If the Russell bear market thesis and the Prechter interpretation of Elliot is correct, what in the world could cause a major bear market to start here in 1994? Frankly, I know of no economist who is predicting or even thinking about an economic disaster. Why? How? What?

Answer: One prerequisite of a major bear market is a broad-based sentiment that "a major bear market is well nigh impossible." So ironically, a bear market can only occur when Wall Street and Main Street are totally unprepared for it (i.e., when it is not discounted).

The yield on the Dow is currently at a minuscule 2.68%. This attests to the fact that investors are still extremely bullish regarding stocks and the future. Let's face it, the current 2.68% Dow yield is one of the lowest Dow yields in stock market history. Moreover, the Dow yield has held below the 3% level longer than any other time in stock market history.

As to what events could lead to a primary bear market, there are many possibilities. For instance, according to one respected economist, Dr. Kurt Richebacher (former head economist for Germany's Dresdner Bank), we are sitting atop the greatest speculative debt bubble in world history. All debt bubbles of the past have ultimately burst. The bursting of the current bubble could easily set off a bear market of epic proportions.

But history tells us that the reason for bear markets are seldom known in advance. What we do know (and Charles Dow wrote of this extensively) is that there is a cycle of sentiment in human affairs. The cycle runs from great optimism to great pessimism, and then back to great optimism again. The complete cycle can take four years or 24 years, it can take the market through a great distance or a minimum distance.

Surveying the entire picture, we do know one thing -- the bull market that took the Dow from 577 in 1974 to just short of 4000 in 1994 was one whopping huge and extended bull market. The bear market which corrects it should be somewhat in proportion.

Comment: What makes this business so interesting, yet so tough, is that nobody has the final answer. As a market letter writer, you better learn how to stand alone. For instance, I just read an interview with the very astute Abby Cohen, Co-Chair of *Goldman Sachs' Investment Policy Committee.* Says Abby, "We think the nervous condition of the market over the last two or three months is more reflective of internal market problems . . . We think it's a correction in a bull market."

Me, I really respect Abby Cohen. But I don't agree with her. As I said, it's a tough business.

INVESTMENT POSITION -- ANIMALS: Some bear markets come in like a lion, some come in like a lamb. But all have only one thing in mind -- to separate you from your assets.

How would I describe this bear market's entrance? Sly -- not like a lion, not like a lamb, more like a fox. At its April closing low the Dow was down only 9.7% from its high, but a lot of individual stocks have already been badly battered. Furthermore, it appears we'll see a lot more of the same type of action -- namely, broad trading ranges in the big averages while simultaneously many individual stocks get hit and hit hard. You may also have noticed that this bear market does not take kindly to disappointments (individual stocks get whacked hard when earnings don't fit the analysts' predictions).

Meanwhile, the market "experts" will continue recommending stocks "to buck the trend," economists will continue to see "brighter times ahead," and analysts will continue to guess that "it's not really a bear market, it's just a normal correction."

As I've been saying, the bear's in no hurry -- in fact, he enjoys playing his sadistic little game here in 1994. The name of the game?

I call it, "C'mon in, the water's fine." Of course, many of Wall Street's top analysts have a different name for the game. They call it, "This time it's different."

Stay in cash. Hold some gold items. A few of the money market funds have taken a beating (their units dropped below one dollar, necessitating cash infusions by the fund sponsors). This means that T-bills are now preferable to many money market funds. Remember, the winner in an extended bear market is the person who can say, "Hey, I never worried about the return on my capital, I'm just thankful that my capital was returned."

P.S. Dollar action continues weak, particularly against the D-mark and the Swissie. Last Letter's "Low Risk Buy Signal" on the dollar (so far) has had little effect. When a usually reliable signal aborts, watch out -- something important is taking place. One perception shared by the FOREX crew -- "Europe's economy is now strengthening while the US economy is weakening."

THE DEBT-KING: The total of all US debt (private, corporate, government) now totals **$15.9 trillion.** This is an absolutely staggering figure, and it means that debt now "runs" this nation's economy. Today's mountain of debt is like a giant iron vice that is holding the US in its relentless grip.

Why is the Fed so deathly afraid of inflation? They're afraid because if inflation increases, the Fed will be forced to raise rates. And if rates rise, that $15.9 trillion of debt (bonds, notes, bills, mortgages, etc.) will decline in price, and those losses in turn will squeeze the economy. That, in a nutshell, is why the debt is now master of all the markets -- the debt-monster is KING.

Anyone can subscribe to the Federal Reserve Board's quarterly "Flow of Funds" publication. I do, and here's what it shows. The total amount of debt in the US is continuing to rise, and I mean rise to astronomical proportions.

As I said above, the total of debt now hanging over the US is **$15.9 trillion** (figures for the fourth quarter). How is this debt broken down? $5.21 trillion is in US government securities; $4.18 trillion is in mortgages; $2.18 trillion is in corporate and foreign bonds; $1.26 trillion is in tax-exempt securities; $858 billion is in consumer credit; $781 billion is in bank loans; $580 billion is in open-market paper.

The average interest on this debt is 7% to 8%, probably higher, but to be conservative, let's say it's 7%. All right, 7% of $15.9 trillion is $1.11 trillion. That's the annual amount of interest payments required annually to float the entire US debt load. Break that down, and you're talking about $21 billion a WEEK in interest!

What happens if interest rates rise just 1%? If that happens the total payment required to float the US debt structure moves up to $1.27 billion or $25 billion a week. So you can see that rising interest rates in a debt-ridden economy can play hell with those who are paying the interest on the debt (you and I).

Again, according to the Flow of Funds report the total of US government securities outstanding during the first quarter of 1994 was **$5.21 trillion.** This represents a rise of $124 billion for the quarter. But strangely, the US government reports that its total of outstanding government securities is $4.58 trillion. Why the major discrepancy? The difference is that the Fed's Flow of Funds figure includes all the "off-budget" debt, an amount that the government would prefer you didn't know about.

If we annualize the jump in first quarter 1994's debt addition (remember it was $124 billion), we come up with (gasp) a figure of $496 billion. That could be the true size of the US annual deficit. At that rate we would be adding around one trillion dollars to the national debt total every two years.

Can any currency hold up under these conditions? Personally, I doubt it, but I guess we'll find out (for many of the statistics in this discussion I want to thank *Gold Discipline Amendments*, PO Box 370353, Denver, CO 80237).

Note: Former Fed governor Wayne Angell (he just retired from the Fed) is of the opinion that short rates will be at 5% by the end of the year.

This clip tells a bit of the story: (*WSJ*, June 15) General Electric has pumped around $200 million into its troubled Kidder Peabody subsidiary, much of it making up for losses in Kidder's massive $12 billion position in mortgage-backed bonds. Russell comment: I look for more of the same from other institutions.

On the Ropes

Kidder Peabody Gets Infusion From GE, But Problems Mount

An Ailing Bond Inventory, Widening SEC Probe Bedevil Struggling Firm

Big Operating Loss Expected

By Laura Jereski and Michael Siconolfi
Staff Reporters of The Wall Street Journal

NEW YORK – Kidder, Peabody Group Inc. is on life support.

In the past two months, a federal regulator and Kidder officials say, General Electric Co. has injected hundreds of millions of dollars into its ailing brokerage firm to prop up its financial foundation.

NOTES & QUOTES: Clinton talks incessantly, but I do think his D-Day speeches were moving and emotional. The new book by Woodward, *"The Agenda, Inside the Clinton Whitehouse,"* is reviewed by the *Washington Post's* Richard Cohen. He writes, "It's hard to read Woodward's book and not come away liking Clinton -- although respect may be a different matter. The man is truly omnivorous, with a gargantuan appetite for meetings, readings, and the contrary view of others. He is the presidential version of a glass clock with all the workings on display, including his own doubts about his own programs. (Repeatedly, for instance, he conceded that his economic program was a turkey.') He is engulfed by detail, up to his eyes in minutia, too often unable to lead because he himself is lost. At times it seems what he needs most is a president."

Russell comment: All well and good, but in my opinion the Clinton administration is really beginning to unravel. Even his own Democrats are aghast at Clinton's weak-waffling foreign "non-policy." On the domestic front, it's now clear that Clinton was wrong when he insisted, "It's the economy, stupid." What he should have said is, "It's the deficits, stupid." It's the bond market Clinton is obsessed with, as I knew he had to be. The debt-monster's shadow is everywhere, and it's beginning to run the nation.

Clinton is facing his real baptism of fire with the North Korean situation. "The Great Leader," Kim Il Sung, the power-mad leader of N. Korea has an ace-in-the-hole, a ruthless method for blackmailing the free world. The threat -- Kim is set on producing nuclear bombs and probably selling them to other renegade nations. This scares most of the rest of the world, particularly S. Korea. N. Korea is a police state, and is almost completely cut off from the outside world. Clinton has been trying to negotiate with N. Korea to no avail. The inspection of N. Korea's nuclear capabilities has been a failure. What's next? More pleading to negotiate? More pleading to inspect? More threats? Experts in the field insist that dictators respect only one thing -- POWER. Kim Il Sung is betting that Clinton will continue to waffle. Will Kim be right? Will Bill lower the boom? Or will Bill be Bill? You wanted to be president, Mr. Clinton -- it's your move.

* *

I'm more and more impressed with Malcolm Forbes, Jr. (Gad, is he turning libertarian?) In his latest editorial (*Forbes* magazine) he accuses the Fed of pumping up the money supply (inflationary) while at the same time raising interest rates to halt the inflation they're creating. It will lead to stagflation, he warns. Forbes adds, *"Floundering White House. Floundering Fed. No wonder markets are skittish despite current economic growth; they're eyeing more threatening clouds on the horizon"* . . . On the fading enthusiasm for Clinton's health care plan Forbes notes that *"the unsung heroes in this remarkable reversal of public opinion are radio talk show hosts. Most have vigorously, tirelessly exposed the flaws of the White House scheme. They have done what most congressional*

Republicans failed to do -- consistently, courageously attacked this monstrosity head-on . . . People realize that health care flaws can be corrected without turning one-seventh of the economy over to the federal government."

* *

I guess I'm just a dinosaur. My wife, Faye, tells me that in some ways I'm still living through the Great Depression. For instance, when I'm buying groceries I'll buy the 69 cents lettuce instead of the 79 cents lettuce. Is that dime really important? And my kids make fun of me because I go through the house turning out the lights (which they never, ever turn out). I yell, "Hey, are you kids working for San Diego Gas & Electric or what?"

The other day I thought of all the things I could buy for a nickel when I was a kid. Here are a few: a pack of gum, a hamburger at White Tower, a cup of coffee, a ride on the subway or bus or trolley, a ride on the ferry from NYC to Jersey, the Sunday *Daily News*, an outside telephone call, a first class stamp (actually three cents), the *NY Times* (actually three cents), a soda, a cigar, a pack of two shoe laces, a spool of thread, an apple on a street corner, a double-scoop of ice cream on a cone, a hot dog with sauerkraut and mustard. Of course, money was hard to come by those days, but it just shows how the dollar has collapsed in purchasing power.

But then I catch myself, and I tell myself, "Get real -- saving a little here or a little there seems ridiculous when I think of the amount of taxes (total waste, in my opinion) that I pay the government." Ah Russell, just buy what you want, and stop worrying.

* *

Speaking of taxes (bow down and thank him), Rep. Armey (R. Texas) in a major article on the op-ed page, *WSJ* (June 16), states, "It's time for a roll-back. Today I'm introducing the *Freedom and Fairness Restoration Act*. It launches a frontal assault on government by calling for a Flat Tax. After seven decades of abuse by corporate lobbyists and self righteous income redistributors, our tax code is a mess. Rates are high, loopholes abound and families are burdened as never before. My bill would scrap the entire code and start over with a simple, low, flat tax." Armey's tax would be **17% across the board** on all earnings, personal and business. Savings and dividends would not be taxed. Russell comment: Can it happen? Will it happen? Will the US ever get sane? Keep voting and praying.

* *

More on Taxes: Citizens For An Alternative Tax System are pushing for the only logical alternative to the current tax insanity -- a national sales tax. Such a tax would eliminate tax lawyers, tax accountants, the IRS, the whole damn tax industry. Furthermore, it would largely eliminate cheating on taxes, and it would allow citizens to see (via the size of the sales tax) what the government is costing them in taxes. A national sales tax, an idea whose time has come. (For more info write to 1015 Oneonta Dr., LA, CA 90065.) Are the Clinton people actually thinking of a consumption tax? Maybe, but I'm afraid that instead of substituting a sales tax for the present system, they'd like to put a national sales tax ON TOP of the current corrupt system.

* *

Change in Hollywood -- the very top writers are now making BIG money. For instance, William Goldman, who was paid $400,000 for his original "Butch Cassidy and the Sundance Kid" script, will earn over a million dollars for his adaptation of the upcoming Grisham novel, "The Chamber." Joe Eszterhaz ("Basic Instinct") sold his new "Foreplay" script to Savoy for $3.5 million plus an unprecedented 2.5% of the first dollar gross along with a cut of the video income plus a percentage of earnings from the music. Hollywood is finally finding out that nothing takes the place of a great script, and the few writers who can deliver now make millions.

* *

Rosenbaum of the *NY Times* writes that when Democrats are caught abusing the power of their office they're dealt with harshly, but strangely graft and stealing is taken with a grain of salt. ("C'mon, everybody does it.") On the other hand, most Republicans are contemptuous of government and although they don't tend to steal, they prefer defrauding as in Watergate or Iran-Contra. As one public relations officer put it, the difference is grounded in class distinction -- "The lower classes steal, the upper classes defraud. The Republicans don't need walking around money."

* *

Amazing, these two items were printed one on top of the other in a local newspaper. Bentsen may yet discover that all facts are history.

* *

With the recent collapse of PepsiCo, I'm thinking that the fast-food industry has topped out, at least here in the US. There's a fast food joint on every block in every city in the nation. I think people are just getting tired of fast food. Low fat items are in, and who knows -- maybe eating home and saving the money will be the next trend. The only real growth for the fast food industry lies overseas. In the meantime, the fast-food stocks have had it. (Do you believe Foodmaker at under 6?)

If Americans really are avoiding fast food and saving the money, they must be spending it somewhere else, because they sure aren't saving anything. The savings rate in the US has dropped to 3.5%, lowest level since 1987. This super-low level suggests either great confidence or a great financial squeeze, take your choice (my guess is the latter).

Key Inflation Indicator Jumped To 15-Year High

The Center for International Business Cycle Research said its leading U.S. inflation index jumped to 110.8 in May from a revised 107.8 in April. The increase pushed the center's annual growth rate to an 11-year high of 15% in May, up from a revised 10.5% in April. The index was boosted by strong increases in every component, including industrial materials prices, employment population ratio, and the percentage of purchasing managers reporting rising prices and slower deliveries.

Inflation Under Control, Treasury's Bentsen Says

Treasury Secretary Lloyd Bentsen said U.S. inflation is under control and that it appears "it will stay that way for some time." Bentsen said the U.S. administration had turned the economy around, cut the government deficit faster than expected, created three million new jobs since taking office, and is on target to achieve the eight million new jobs targeted by the administration. "The fundamentals of our economy are in great shape. I haven't seen it like this in 20 years."

* *

Is California leading the way again? Two weeks ago California voters turned down every bond proposition on the ballot -- $6 billion worth of them. The Golden State is going broke, and voters here know it. If it's a spending proposition, California's voters are saying, "No." I think they'll also say "No" to governor hopeful Kathleen Brown in November.

* *

And how good is your state? This rundown by the Corporation for Enterprise Development rates each state (A best to F worst) as follows. **PER** is economic performance, how well the economy benefits the residents of the state. **VIT** or business vitality, how competitive and diversified the businesses are and how many are created. **CAP** is development capacity, or the capacity for growth and recovery from economic adversity.

State	PER	VIT	CAP	State	PER	VIT	CAP	State	PER	VIT	CAP	State	PER	VIT	CAP
Ala.	C	A	D	Il.	D	A	A	Mo.	F	B	C	Pa.	B	B	B
Alaska	A	C	C	Ind.	A	A	D	Mont.	D	B	B	R.I.	D	F	B
Ariz.	C	F	B	Iowa	A	D	B	Neb.	A	D	B	S.C.	D	D	D
Ark.	C	D	F	Kan.	C	B	C	Nev.	B	C	C	S.D.	B	D	D
Calif.	F	C	B	Ky.	F	C	F	N.H.	A	D	C	Tenn.	B	A	D
Colo.	A	A	A	La.	F	C	F	N.J.	C	A	A	Texas	C	A	C
Conn.	B	D	A	Maine	D	B	D	N.M.	D	B	C	Utah	A	B	A
Del.	B	B	B	Md.	C	C	B	N.Y.	D	A	C	Vt.	B	C	C
Fla.	C	C	D	Mass.	C	C	A	N.C.	C	C	C	Va.	B	B	C
Ga.	C	B	C	Mich.	C	C	C	N.D.	D	B	C	Wash.	B	C	A
Hawaii	A	F	B	Minn.	A	B	A	Ohio	C	C	B	W.Va.	F	F	F
Idaho	C	A	C	Miss.	D	A	F	Okla.	D	F	D	Wis.	A	D	A
								Ore.	B	D	A	Wyo.	C	C	D

Source: Corporation for Enterprise Development

* *

You Say Computers are beyond you? I've been warning about this for a long time. There's a growing mass of high-school dropouts, unskilled laborers, illiterates, untrained young men and women. These people constitute the new and growing "underclass," the people who will be working (assuming they can find a job) for low or minimum wages. The Labor Dept. just reported that "real" hourly compensation for US workers (inflation adjusted) stagnated over the last 20 years and actually declined for male workers. The report said that this was "unprecedented in the past 75 years in this country." Russell comment: This growing underclass has become a

huge problem, and I think it's largely responsible for the lingering atmosphere of pessimism in this country.

* *

Fortune (June) contains an interesting article titled, "Is Going On-Line Worth The Money?" The article states that "millions are signing up with America OnLine, CompuServe and Prodigy. But don't expect the services to help you do your job better." The article goes on to say, *"In their printed ads and TV ads, the three services promise to deliver all this and more. While I did find CompuServe valuable as a research tool and America OnLine an easy way to travel through cyberspace, I ended up disappointed. The reality of life on-line doesn't come close to matching the hype."* Russell comment: I agree, but I still think you have to get on-line; it will get better, and it's obviously the wave of the future.

'Underclass' Forming In The Labor Market, A Gov't Panel Finds

WASHINGTON (AP) — The proportion of low-wage earners in the American workforce is rising, creating an "underclass" in a two-tier wage structure, a government report said yesterday.

The report, issued jointly by the Labor and Commerce Department, comes as U.S. companies are demanding better-educated, white-collar employees. It says the number of low-wage workers has "grown greatly, with the result that a sizeable proportion of U.S. workers are paid markedly less than comparable workers in other advanced countries."

* *

I'm a firm believer in niche businesses in this age of super-competition. A good example is Tabasco sauce. Tabasco sauce was invented 125 years ago by Ed McIlhenny, a Louisiana banker and gardening enthusiast. The sauce is made from pepper plants. McIlhenny chose the name simply because he liked the sound of it. Today Tabasco is sold in 100 countries and labels are printed in 19 languages. The sauce is nothing more than peppers, salt and distilled vinegar, but nobody else can best it. Last year 100 million bottles of Tabasco were sold. The privately held company has 10 family members on its board and 100 shareholders. All because the world loves a sauce that makes their food spicier. Now there's a real niche.

* *

Here come the Swiss! Yep, the Swiss, flush with cash are gobbling up American companies. Giant Roche Holdings Ltd. shelled out $5.3 billion (all cash, by the way) for Syntex Corp. Three weeks later Sandoz Ltd. (Swiss pharmaceutical giant) paid $3.7 billion for Gerber Products. The feeling is that the Swiss will outbid everyone else. Why? They have the cash. Six of Switzerland's largest and most predatory companies have a total of $40 billion in ready money (Roche, ABB, Sandoz, Ciba-Geigy, Nestle, Richemont).

The canny Swiss undoubtedly know what they're doing. The Japanese are just finding out what they did. For instance, back in '89 SONY paid $3.4 billion for 25% of Columbia Pictures. Insiders guess that at best SONY could get $1.5 billion for that 25% interest today.

* *

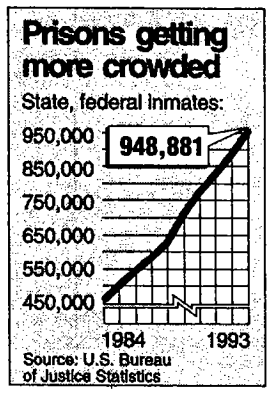
Is music coming back? Are our kids getting sick of heavy metal and rap? Is that why old Tony Bennett is a hero to the kids? Asks *Daily Variety*, "It's hard to figure exactly what endears Tony Bennett to the Generation X set." They speculate that maybe "the 20-something set finds the jazzy styling of this 60-something singer sexy." My guess -- beautiful songs sung the right way are still irresistible, even to the kids who were brought up on loud noise masquerading as music. Or maybe there's a watershed change coming, maybe Bennett's popularity is hinting at a tidal change in the tastes of youth (watershed cultural changes often occur simultaneously with watershed changes in the stock market).

* *

The Japanese continue to take a beating on their crazy US investments. The super-fancy Hotel Bel-Air is now reportedly up for sale by Japanese interests who paid $1.2 million per room for the 92-room hotel in the late 1980s. The Japanese tycoon who bought the Pebble Beach golf resort in 1990 was reported to have lost $340 million when he sold it in 1992.

* *

One third of the prisoners in state and federal prison are in for non-violent drug violations. This is costing the nation billions of dollars and creating a building boom in penitentiaries. The "Get Tough" anti-crime measures helped push the nation's prison population to 948,000 in '93, up almost 188% since 1980. Crime, it's the growth phenomenon of the last decade, but can this kind of "growth" continue? Check this chart.



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The Dems worry about the upcoming Rostenkowski trial. They're worried that the defense may claim that a lot of what Rosty did has been "common practice" in Congress over the years -- and that the culture simply changed. In other words, Congress and particularly the Dems are worried that the trial will be a further blow to the Congressional image, which is currently just a bit lower than a snake's belly.

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You're fretting about rising interest rates? How about this -- the Russian central bank just lowered its three-month discount rate from 200% to 185% effective last Thursday. The bank's chairman is optimistic, however, and he predicts a drop to 110-120% by year end.

* *

You have to wonder about nature or the Malthusian law. Africa, with the highest birth rate in the world (half the population of Ghana is 15 or younger) has been facing the fire. Half a million people have been killed in Rwanda, an AIDS epidemic is sweeping Africa, and now famine has put countless people at risk. Are there just too many people in the world? Is birth control the wave of the future or will over-population problems be "solved" via war, famine and disease? You tell me.

A New Threat Of Famine: 20 Million at Risk in Africa

By Jennifer Parmelee
Washington Post Service

ADDIS ABABA, Ethiopia — A U.S. aid delegation said here that it wanted to mobilize an urgent global response to food shortages in eastern Africa before they grew into full-blown famine.

Ethiopia, which was devastated 10 years ago by starvation that claimed hundreds of thousands of lives, this coming the

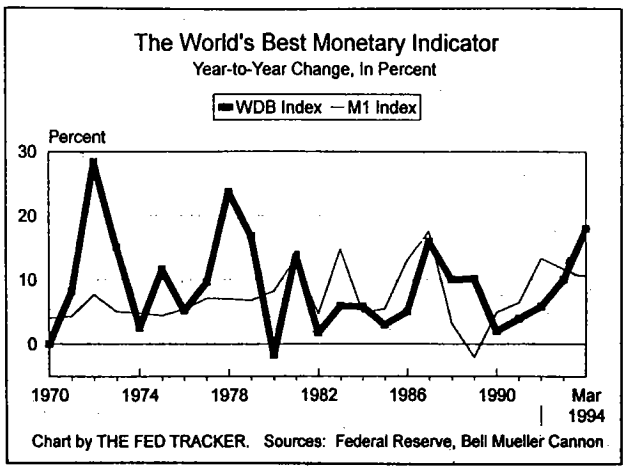
* *

One cartoonist's comment on government's largesse:

* *

Growth: A normal head of hair consists of about 100,000 hairs. And would you believe -- that head of hair will grow a total of 300 to 600 feet a day. That's equal to a single hair growing the length of one to two football fields a day. Sadly, I have to report that at this point I probably grow about 50 feet of hair a day.

DOLLAR: This is a chart which originally appeared in the *WSJ* (July, 1990). It has been updated by Ken Coleman of the *Fed Tracker* [(800)424-3130]. Coleman calls this chart "The World's Best Monetary Indicator". Remember a few Letters ago when I warned that the US was spewing too many dollars across the face of the earth (thereby exporting inflation)? Well, this chart tells the same story in pictorial form.

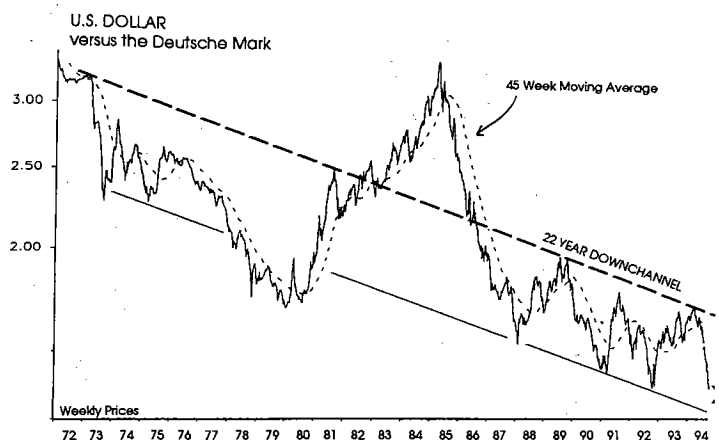


NEXT MAILING: July 6, 1994

The heavy black line is the World Dollar Base, and indicates the amount of total dollars that have been created overseas. The thin line is M-1 and this indicates the dollars being created here in the US. The greatest creation of dollars is seen when both lines are rising together. The combined force of both lines indicates that the world creation of dollars is up about 75% since 1990.

The *WSJ* in its original article (1990) stated that this chart has predicted every major expansion and contraction in the US economy since 1966. What this chart is telling us now is that the dollar is going to remain basically weak -- too many dollars have been manufactured worldwide. A weak dollar creates inflation, and inflation goes hand in hand with higher interest rates.

Thus the Fed, with its super-easy monetary policy, has sent all three -- M-1, the bond market and the stock market -- into the stratosphere. And as dollar weakness continues, it will be the Fed that will be forced to protect the dollar with higher interest rates. Coleman calls this,*"The monetary time bomb that is ticking, ticking, ticking."* And the great irony is that the Fed, which created the time bomb, is now faced with a choice -- halt inflation with higher rates and wreck the bond market, or let inflation run (which, of course, would wreck the bond market anyway).


U.S. DOLLAR
versus the Deutsche Mark
45 Week Moving Average
22 YEAR DOWNCHANNEL
3.00
2.50
2.00
Weekly Prices
72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94

Is it any wonder then that the Fed, week after week, insists, "There's no inflation, there's no inflation," which is pure bunk. With higher taxes infiltrating through the system, you and I know that our cost of living is steadily rising (Sindlinger says inflation is now 8%). So, dream on, Alan Greenspan.

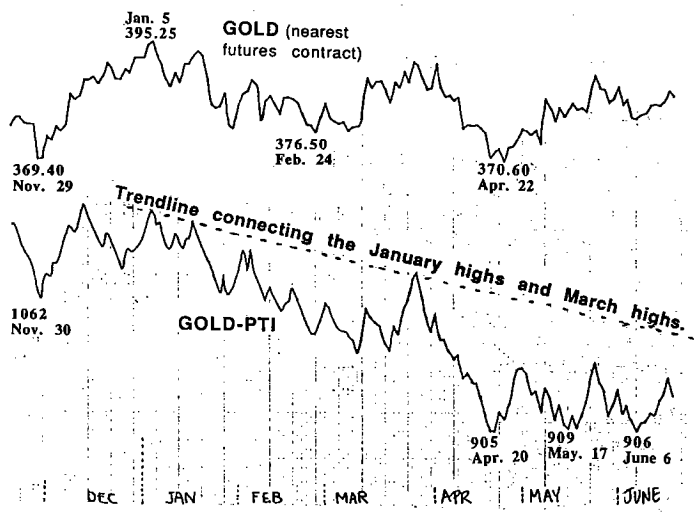
To give you some perspective, the chart [below left, courtesy of two of my favorite ladies, the Aden sisters from Costa Rica -- (800) 528-0559] shows the path of the dollar vs. the D-mark over the past 22 years. Except for a brief period during the early 1980s, the direction has been down, down, down.

PRECIOUS METALS: What's interesting about the gold action is not that gold hasn't taken off on the upside. What's so interesting is that with supposedly "no inflation," gold has held stubbornly above 380.

I can't prove it, but I believe that consciously or unconsciously "big money" is growing increasingly skeptical about the viability of the dollar. Thus, there is an increasing willingness to buy tangibles, and by that I mean art, collectibles, antiques, gems, jewelry, gold, silver, platinum -- yes, even real estate.

Turning to the chart below, with last week's strength, gold has again flirted with the above- 390 level. If gold can hold above 390, it will be in position to try for the more important 400 level. Gold is firm but still in the backing-and-filling stage.

As for my Gold Primary Trend Index (G-PTI), it's established three important lows in the 905-909 area, and I believe these three lows represent the bottom for the whole gold spectrum. If the January-March trendline on the chart is bettered, I think you'll see the gold stocks (finally) spring to life. Both gold and the shares are pretty well sold-out by now, but I still don't feel the time for a major upside push in the precious metals (in other words, it's still accumulation time).



LATE NOTES: The dollar has (again) turned seriously weak, and last week the Dollar Index broke to a new 52-week low (below 91.50). It's obvious that a lot of people around the world want to wave "bye-bye" to the dollar. It's equally obvious that the FOREX traders are again testing the Fed's resolve to defend the dollar. If the Fed has the guts to defend the dollar, they'll have to do it with higher interest rates (of course, there's always intervention). With an election coming up and with the Clinton crowd already complaining about "high rates," there's a good chance that the Fed will sit on its hands and let the dollar seek its own sick level.

In the meantime, the Dow dividend dropped last week to $99.94, which means that the Dow is now selling at an absurdly rich 37.5 times dividends. Oil over 20 bucks a barrel, industrial materials surging, precious metals very firm -- listen carefully, you can almost hear the bear growling.